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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

92-2248

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 1992

OR

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file No. 1-10615

Emisphere Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-3306985
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

L3Q

PROCESSED BY
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MAR 20 1992

15 Skyline Drive
Hawthorne, New York 10532
(Address of principal executive offices) (Zip code)

(914) 347-2220
(telephone number, including area code)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Clinical Technologies Associates, Inc.
5 Westchester Plaza, Elmsford, New York 10523
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ____.

APPLICABLE ONLY TO CORPORATE ISSUERS

As of March 10, 1992 there were 5,990,032 shares of common stock, $.01 par value, of the registrant outstanding.

Exhibit Index on Page 29

BEST COPY AVAILABLE

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

TABLE OF CONTENTS

JANUARY 31, 1992

	Page Number(s)
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Balance Sheet as of January 31, 1992 (unaudited)	3
Statements of Operations for the six-month periods ended January 31, 1992 and 1991 (unaudited)	4
Statements of Stockholders' Equity for the six months ended January 31, 1992 (unaudited)	5
Statement of Cash Flows for the six-month periods ended January 31, 1992 and 1991 (unaudited)	6
Notes to Financial Statements for the six-month periods ended January 31, 1992 and 1991.	7 - 18
Condensed Balance Sheet as of July 31, 1991 (unaudited)	19 - 21
Condensed Statements of Operations for the three-month periods ended January 31, 1992 and 1991 (unaudited)	22
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	
For the three month period ended January 31, 1992	23
For the six month period ended January 31, 1992	25
Liquidity and Capital Resources	26 - 27
PART II. OTHER INFORMATION	28

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

BALANCE SHEET

(Unaudited)

as of January 31, 1992

ASSETS:

Current assets:	
Cash and cash equivalents (Notes 2, 3 and 12)	$ 3,597,149
Investments (Note 3)	4,164,702
Prepaid expenses and other current assets	127,260
Total current assets	7,889,111
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization (Notes 2 and 4)	1,562,197
Note receivable (Note 11)	180,000
Other assets	117,485
	$ 9,748,793

LIABILITIES and STOCKHOLDERS' EQUITY:

Current liabilities:	
Accounts payable	$ 544,632
Accrued expenses	147,127
Contract deposits	5,000
Total current liabilities	696,759
Commitments and contingencies (Note 5)	
Stockholders' equity (Notes 6, 7, 8 and 12):	
Preferred stock, non-cumulative, $.01 par value; 1,000,000 shares authorized, none issued and outstanding	
Common stock, $.01 par value; 20,000,000 shares authorized, 5,204,121 issued and outstanding	52,041
Additional paid-in capital	19,736,737
Compensatory stock	(31,424)
Accumulated deficit	(10,705,320)
Total stockholders' equity	9,052,034
	$ 9,748,793

See accompanying notes to financial statements.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

STATEMENTS of OPERATIONS

(Unaudited)

for the six-month periods ended January 31, 1992 and 1991

	1992	1991
Revenues (Notes 2 and 9):		
Clinical testing services (Note 11)		$ 403,494
Research and development contracts	$ 75,000	520,000
	75,000	923,494
Cost and expenses:		
Direct costs of clinical testing services		440,310
General, administrative and selling expenses	1,009,425	906,398
Research and development	1,629,748	566,567
Depreciation and amortization	174,714	65,090
	2,813,887	1,978,365
Operating loss	(2,738,887)	(1,054,871)
Other income (expenses):		
Post termination benefits (Note 5)		(503,200)
Interest expense		(28,750)
Interest income	217,966	19,236
Other income	34,926	
	252,892	(512,714)
Net loss	($2,485,995)	($1,567,585)
Net loss per share (Note 2)	($.52)	($.50)
Weighted average number of shares outstanding	4,786,293	3,148,240

See accompanying notes to financial statements.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

STATEMENT of STOCKHOLDERS' EQUITY

(Unaudited)

for the six months ended January 31, 1992

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Compensatory Stock	Total
Balance, July 31, 1991	4,398,295	$43,983	$14,712,382	($ 8,219,325)	($62,852)	$6,474,188
Exercise of options	163,098	1,631	1,028,928			1,030,559
Exercise of warrants	642,728	6,427	4,086,191			4,092,618
Costs incurred in connection with exercise of stock options and warrants			(90,764)			(90,764)
Compensatory stock amortization (Note 7)					31,428	31,428
Net loss, for the six months ended January 31, 1992				(2,485,995)		(2,485,995)
Balance, January 31, 1992	5,204,121	$52,041	$19,736,737	($10,705,320)	($31,424)	$9,052,034

See accompanying notes to financial statements.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

STATEMENTS of CASH FLOWS

(Unaudited)

for the six-month periods ended January 31, 1992 and 1991

Increase (Decrease) in Cash

	1992	1991
Cash flows from operating activities:		
Cash received from customer and CTA Bio Services (Note 11)	$ 34,926	$ 790,873
Cash paid to suppliers and employees	(2,648,666)	(1,811,402)
Interest paid		(16,168)
Interest received	199,677	19,236
Payment of post-termination benefits	(560,322)	
Net cash used in operating activities	(2,974,385)	(1,017,461)
Cash flows from investing activities:		
Capital expenditures	(1,047,438)	(206,708)
Purchase of investment securities	(916,931)	
Proceeds from sales of investment securities		754,454
Net cash (used in) provided by investing activities	(1,964,369)	547,746
Cash flows from financing activities:		
Proceeds from exercise of options and warrants	5,123,177	
Net payments under short-term agreements		(1,285,000)
Payments of registration costs	(90,764)	
Net cash provided by (used in) financing activities	5,032,413	(1,285,000)
Net increase (decrease) in cash and cash equivalents	93,659	(1,754,715)
Cash and cash equivalents, beginning of period	3,503,490	2,115,491
Cash and cash equivalents, end of period	$3,597,149	$ 360,776
Reconciliation of net loss to cash used in operating activities:		
Net loss	($2,485,995)	($1,567,585)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	174,714	65,090
Amortization of compensatory stock	31,428	41,902
Termination costs associated with former officer		515,782
Change in assets and liabilities:		
Accounts receivable and unbilled costs and related profits from clinical testing contracts		(77,493)
Prepaid expenses and other current assets	(27,753)	19,174
Other assets	(26,742)	
Loan payable - clinical sale	(259,175)	
Accounts payable and accrued expenses	254,460	40,797
Post-termination benefits payable	(560,322)	
Contract deposits	(75,000)	(55,128)
Total adjustments	(488,390)	550,124
Net cash used in operating activities	($2,974,385)	($1,017,461)

See accompanying notes to financial statements.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

NOTES to FINANCIAL STATEMENTS

1. Organization and Business:

Emisphere Technologies, Inc. (the "Company"), formerly Clinical Technologies Associates, Inc., was incorporated in the State of Delaware on July 21, 1986. The Company is a biopharmaceutical company involved in the research and development of its patented technology in connection with the commercialization of its oral drug delivery system. The Company has no product sales to date. Prior to July 31, 1991, the Company was also involved in conducting clinical research and development studies for pharmaceutical companies seeking regulatory approval to market new drugs. This line of business was sold to certain members of the prior management on July 31, 1991 (Note 11).

The Company changed its name to Emisphere Technologies, Inc. after receiving shareholder approval on January 21, 1992.

2. Summary of Significant Accounting Policies:

Equipment and Leasehold Improvements:
Equipment and leasehold improvements are stated at cost. Depreciation and amortization are provided for on the straight-line basis over the estimated useful life of the asset, ranging from five to seven years for equipment. Leasehold improvements are amortized over the life of the lease or of the improvements, whichever is shorter. Expenditures for maintenance and repairs which do not materially extend the useful lives of the respective asset are charged to expense as incurred. The cost and accumulated depreciation or amortization of assets retired or sold are removed from the respective accounts and any gain or loss is recognized in operations.

Cash and Cash Equivalents:
For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Patent Costs:
As a result of research and development efforts conducted by the Company it has applied for, or is in the process of applying for, a number of patents to protect proprietary inventions. Costs incurred in connection with patent applications have been expensed as incurred.

Continued

Revenue Recognition:
The Company is currently engaged in the business of providing contract research and development. Such revenue is recognized ratably over the contract period. Certain contracts also contain provisions whereby the Company will receive additional payments for services rendered if certain test objectives are achieved. Such amounts are recognized as income when received.

Prior to July 31, 1991, the Company provided to pharmaceutical companies clinical testing services. Such services were performed under contract, and revenue from such contracts was recognized on the percentage-of-completion method, measured by costs incurred. Under this method, estimated losses were recognized in full in the period in which such losses were determined.

Loss per Share:
Net loss per share is computed based on the loss for the period divided by the weighted average number of shares of common stock outstanding during the period. The loss per share for all periods presented excludes the number of common shares issuable upon the exercise of outstanding options, rights and warrants, since such inclusion would be anti-dilutive.

Income Taxes:
The Company adopted Statement of Financial Accounting Standards No. 109, which has superseded No. 96, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires that in the event that deferred taxes need to be accrued, such amount be provided for using current enacted tax rates for the tax consequence on future years of the differences between the tax basis of assets and liabilities and their respective financial reporting amounts at year-end ("temporary differences"). The adoption of SFAS 109 does not have a material impact on the financial position or results of operations of the Company.

Concentration of Credit Risk:
Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and marketable debt securities. The Company places its excess funds into U.S. Government securities as well as investments with high credit quality financial instruments and, by policy, limits the amount of credit exposure to any one financial institution.

Continued

Impact of the Adoption of Recently Issued Accounting Standards: The Company does not offer current or former employees post-retirement benefits. Accordingly, the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" will not have a material impact on the financial position or results of operations of the Company.

3. Fair Value of Financial Instruments:

In accordance with Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," the following methods were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents - As the result of the short-term maturity of these instruments, carrying value, which includes cost plus accrued interest, approximates fair value.

Investments - The fair value of these instruments has been estimated based on quoted market prices. Carrying value includes cost plus accrued interest, adjusted for the amortization of any discount or premium paid on the face value of the instrument.

The estimated fair values of the Company's financial instruments at January 31, 1992 are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	$3,597,149	$3,597,149
Investments	4,164,702	4,274,141
	$7,761,851	$7,871,290

4. Equipment and Leasehold Improvements:

Equipment and leasehold improvements at January 31, 1992 consist of the following:

	Useful Lives in Years	
Office and scientific equipment	5-7	$1,016,420
Furniture and fixtures	5-7	320,060
Leasehold improvements	10	490,994
		1,827,474
Less, Accumulated depreciation and amortization		265,277
		$1,562,197

Depreciation and amortization expense for the six-month periods ended January 31, 1992 and 1991 was $174,714 and $65,090, respectively. During the six months ended January 31, 1992, the above amount includes a charge of approximately $96,000, representing the net book value of certain equipment and leasehold improvements which the Company abandoned in connection with its relocation to a new facility.

5. Commitments and Contingencies:

(a) The Company, during August 1991, entered into a ten-year noncancelable operating lease for office and laboratory space. The lease commenced on February 1, 1992, the date the Company took possession of the space. In addition to base rent, the lease provides for additional rent based on increases in real estate taxes. The terms of the lease also provide for the termination of any remaining obligation the Company had under a prior lease; however, the Company has guaranteed, until August 31, 1994, that certain space which is occupied by CTA Bio Services, Inc. totaling 5,100 square feet will lease for $13.50 per square foot (see Note 11).

Continued

Future minimum rental payments are as follows:

January 31, 1993	$ 97,500
1994	159,250
1995	169,000
1996	169,000
1997	169,000
Thereafter	887,250
	$1,651,000

For the six-month periods ended January 31, 1992 and 1991, rent expense totaled approximately $104,000 and $92,000, respectively.

In connection with the Company's relocation to a new facility, it is obligated under certain contracts related to the acquisition of furniture and fixtures, equipment and leasehold improvements. As of January 31, 1992, the Company's remaining obligation under those contracts was approximately $328,000.

(b) Under a scientific consulting agreement, the Company is obligated to pay an individual $13,750 quarterly through September 30, 1993, $10,000 quarterly from December 31, 1993 through June 30, 1997 and a final payment of $5,000 on October 31, 1997. The consulting agreement also provides for the Company to pay $50,000 to this individual on or before March 31, 1993. This amount becomes payable immediately in the event the Company sells the rights to certain proprietary technology. In the event the Company does not pay this amount, the rights revert to the consultant. The Company has placed $50,000 in escrow to meet this obligation which is included in other assets.

The Company has entered into noncancelable agreements with two Universities for research services through June 30, 1993. Pursuant to these agreements, the Company is obligated to pay the Universities approximately $315,000 and $52,000 during the years ended January 31, 1993 and 1994, respectively.

(c) The Company has entered into employment contracts with its senior executive officers. The contracts contain provisions for annual compensation, benefits and stock option awards. Two of the contracts contain provisions whereby the employees would be allowed to borrow defined amounts of

Continued

money from the Company under certain circumstances. These loans would bear interest at rates defined by the agreements. One contract also provides for one of the employees to receive a bonus, determined by the board of directors in negotiation with that employee, in connection with certain contracts entered into by the Company. In the event the board of directors and the employee are unable to reach agreement, the contract provides for the employee to receive 5% of the contract amount, as defined.

(d) The Company does not have product liability or professional liability insurance. In connection with its former clinical testing business (see Note 11), the Company may, in the ordinary course of business, be liable for claims from studies conducted prior to the sale of this business. In connection with the clinical testing business, the Company relies on the professional liability insurance of the physicians involved, and the indemnification undertaken by its pharmaceutical company customers. To date, no claims with regard to the clinical testing business have been asserted against the Company; however, if the Company were held liable for medical malpractice or for damages exceeding such coverage, it could have a material adverse effect on the Company. The Company intends to license its oral drug delivery system to pharmaceutical companies and receive indemnification from these companies for any product liability.

(e) The Company on August 13, 1991 settled its claim against the former chief executive officer ("CEO") of the Company. The settlement contained various provisions, one of which required the Company to pay the CEO a total of $560,322, of which the Company had provided $503,200 at January 31, 1991.

(f) In May 1988, an action was brought against the Company which alleged that the Company had breached an underwriting and financial consulting agreement. The plaintiff claimed damages of approximately $14 million plus legal fees. On September 3, 1991, the court dismissed this complaint; however, the plaintiff has served a notice of appeal.

(g) The Company has been notified of possible claims being asserted by two former consultants. The notification alleges that the former consultants are entitled to exercise a total of 41,000 stock options at a price of $8.25 per share. Management contends that the options in question

Continued

have expired. There can be no assurance that the former consultants will not assert claims and if asserted, what the result of any action would be. Management does not believe the ultimate outcome of this matter will have a material impact on the financial position or results of operations of the Company.

6. Research and Development Contracts:

The Company enters into research and development contracts with pharmaceutical customers. These contracts provide for, among other things, the services the Company is to perform and the related fee and payment terms. Certain of the contracts also contain provisions whereby the Company will be required to perform additional services in consideration for amounts defined in the respective agreements. In certain instances, the Company is entitled to additional payments in the event certain testing results are achieved. In addition, the contracts contain provisions which require the Company to negotiate, with the customer, the terms of a license agreement. These licensing agreements contemplate the exclusive worldwide use of the Company's proprietary technology with the specific product under contract.

During 1990, the Company entered into a $1 million research and development contract with The Upjohn Company ("Upjohn"). The terms of the contract include a worldwide license for certain technology of the Company, defined royalty rates and minimum royalties in the event Upjohn sells products which incorporate the licensed technology. This agreement could be terminated at Upjohn's option at any time. Pursuant to the agreement, Upjohn purchased 87,000 shares of the Company's common stock and was granted an option to purchase an additional 87,000 shares at $17.34 per share.

7. Capital Transactions:

During February 1991, the Company entered into a stock purchase agreement with Tredegar Investment, Inc. ("Tredegar"). Under the terms of the agreement, Tredegar purchased 214,286 shares of common stock at a price of $7.00 per share and received 214,285 options and 214,286 warrants. The options and warrants permit Tredegar to purchase an equal number of shares of common stock at a price per share of $7.00 and $10.50, respectively. During February 1992, Tredegar exercised its options (see Note 12), and the warrants which remain outstanding will be fully exercisable

after February 14, 1992. In addition, the stock purchase agreement contains a provision whereby Tredegar has the right to maintain its pro-rata equity, ownership interest in the Company, as defined. As the result of the Company's public sale of common stock on June 7, 1991, Tredegar purchased an additional 112,500 shares of common stock at $8.00 per share. Pursuant to the stock purchase agreement, Tredegar has a right of first offer to license the Company's technology for non-pharmaceutical and non-medical applications. This right expires on February 15, 1994.

During 1989, the Company sold 20,000 shares of common stock to two consultants in consideration for three three-year notes receivable totaling $188,750. The agreement under which these shares were sold contains a clause whereby the notes will be forgiven upon certain provisions being met or a change of control of the Company, as defined. The Company has accounted for this transaction as compensatory stock and, accordingly, has established a contra-equity account, which is being amortized to operations over the life of the notes. The balance remaining to be amortized at January 31, 1992 was $31,424.

The Company, in connection with its initial public offering and subsequent equity financings, issued rights and warrants. These rights and warrants entitle the holder to purchase an equal number of shares of common stock. The warrants and rights expire at various times through November, 1994. As of January 31, 1992, a total of 686,935 rights and warrants were exercisable (see Note 12).

Rights and warrant activity for the six months ended January 31, 1992 is summarized as follows:

	Number of Rights and Warrants	Price Range
Balance outstanding, July 31, 1991	1,436,806	$6.00 - $10.50
Exercised	642,728	$6.00 - $ 8.25
Balance outstanding, January 31, 1992	794,078	$6.00 - $10.50

8. Stock Options:

During 1988, the Company adopted the 1988 Stock Option Plan (the "1988 Plan"). Under the 1988 Plan, a maximum of 750,000 shares of common stock are available for awards ("Options"). Such

Continued

Options can be granted to employees, consultants and outside directors, as defined. The Options vest over a period determined by the Board of Directors, expire at various dates through October 2000, and may not be issued at exercise prices below the fair market value of the Company's common stock on the date of the award. As of January 31, 1992, a total of 148,035 options were outstanding. Options for an additional 173,098 shares were granted and exercised prior to January 31, 1992. As of January 31, 1992, a total of 58,065 options were exercisable. As a result of the adoption in January 1992 of a new stock option plan, no additional awards will be granted under the 1988 Plan.

In addition, the Company has issued a total of 1,057,392 options outside of the 1988 Plan. Such options were issued to investors, employees and consultants in connection with equity transactions, employment agreements and consulting contracts. At January 31, 1992, 876,844 of these options were exercisable.

Option activity for the six months ended January 31, 1992 is summarized as follows:

	Number of Options	Price Range
Balance outstanding, July 31, 1991	1,132,892	$ 6.00 - $17.34
Granted	281,300	$11.00 - $20.00
Exercised	163,098	$ 6.00 - $ 8.25
Terminated and canceled	45,667	$8.25
Balance outstanding, January 31, 1992	1,205,427	$ 6.00 - $20.00

On January 21, 1992, the stockholders of the Company approved the adoption of the 1991 Stock Option Plan (the "1991 Plan"). The 1991 Plan permits the Company to grant employees and consultants ("participants") the option to purchase an aggregate of 400,000 shares of the Company's common stock. The terms of the 1991 Plan provide for the issuance of either incentive stock options ("ISOs") or options which do not qualify as ISOs ("non-ISOs"), as defined by the Internal Revenue Code. ISOs may not be granted to participants at exercise prices below fair market value of the common stock on the date of grant (110% of fair market value for employees who own 10% or more of the Company). Non-ISOs may not

be granted to employees at less than par value of the common stock. The options will be awarded by an independent committee of the Board of Directors who will determine the vesting period.

Generally, the options expire within a five- to ten-year period as determined by the committee and as defined by the agreement. No awards have been issued under this plan to date.

9. Major Customer:

Clinical testing revenues are derived from customers in the pharmaceutical industry. During the six months ended January 31, 1991, approximately 89% of the clinical testing revenues were derived from four customers. There were no clinical testing revenues during the same period in 1992 (Note 11).

During the six months ended January 31, 1992, research and development contract revenue was derived from a single customer. During the corresponding period in 1991, substantially all research and development revenue was derived from one customer.

10. Net Operating Loss Carry-forwards:

At January 31, 1992, the Company has, for financial-reporting and income tax purposes, a net operating loss carry-forward of approximately $10.6 million and $10.1 million, respectively. Such net operating loss carry-forwards will expire during the years through 2006. The Company also has a research and development tax credit carry-forward of approximately $400,000. This credit expires in various years through 2006.

The difference between the net operating loss carry-forward used for financial accounting purposes and income tax reporting purposes is attributable to temporary differences in connection with different expense recognition policies primarily associated with fixed assets and the loss from the sale of the clinical testing line of business.

11. Sale of Clinical Testing Line of Business:

The Company sold its clinical testing line of business, effective July 31, 1991, to CTA Bio Services, Inc. ("CTABSI"), a company owned by three former employees of the Company ("the former employees"), for $251,000.

Continued

The assets sold included $199,000 of receivables on projects accounted for on a percentage-of-completion basis that still required additional work (to be performed by CTASBI), $118,400 of cash collected on certain clinical contracts, approximately $76,000 of leasehold improvements to the clinical testing facilities and clincial testing equipment valued at approximately $134,500. The total book value of all the assets sold was approximately $527,900.

The purchase price was paid by the delivery of two notes from CTABSI. One note for $211,000 (the "First Note") is payable on July 31, 1995, and bears interest at 12% per annum beginning on July 31, 1994. The First Note is collateralized by accounts receivable and certain assets of CTABSI. Payments of principal are required to be made prior to maturity to the extent of 7-1/2% of amounts collected by CTABSI on receivables generated prior to July 31, 1991, which were assigned to CTABSI, and 5% of amounts collected by CTABSI on receivables generated by it after July 31, 1991. The second note for $40,000 (the "Second Note") is payable in four $10,000 semi-annual installments beginning January 31, 1993, and bears interest from August 31, 1991 at 8% per annum payable monthly. The Second Note is collateralized by 55,000 stock options to purchase stock of the Company which are owned by the former employees. Under generally accepted accounting principles, proceeds from the sale will be recognized only as income from the notes is collected. There can be no assurance that CTABSI will be able to operate its business successfully so as to be able to pay the notes.

As part of this transaction, the Company provided a $180,000 working capital loan to CTABSI, which is due and payable in four $45,000 semi-annual installments commencing January 31, 1993, and bearing interest from August 31, 1991 at 8% per annum, payable monthly. This working capital loan is also collateralized by the 55,000 stock options noted above. The Company has also agreed to make available revolving loans to CTABSI, under certain conditions, until January 31, 1994, in amounts equal to 50% of the anticipated initial proceeds of bona fide executed contracts entered into by CTABSI to provide services to third parties. Such revolving loans shall not exceed $100,000 in the aggregate or $50,000 with respect to any one clinical contract. To be eligible for a loan, the contract upon which the loans are to be made must be approved by the Company. Each of such loans will bear interest at the prime rate, payable monthly, and the principal will be due within 5 days after CTABSI receives payment on account of the contract for which it is made. The revolving

Continued

loans will be personally guaranteed by the former employees of CTABSI and will be collateralized by assignments of the contracts involved.

The transaction also provided for CTABSI to sublease office space from the Company at a per-month charge of approximately $5,700 starting August 1, 1991. The sublease was terminated on January 31, 1992 in connection with the Company's move to new facilities (see Note 5(a)).

12. Subsequent Events:

During the period from February 1, 1992 through February 14, 1992, the Company received approximately $4.8 million in proceeds in connection with the exercise of 772,577 options and warrants which converted into an equal number of shares of common stock. That number of shares included 214,285 shares which were purchased by Tredegar (see Note 7). Had these transactions occurred on January 31, 1992, there would have been an increase in cash and stockholders' equity of approximately $4.8 million.

Part I. Financial Information

Item I. Financial Statements

Emisphere Technologies, Inc.

Financial Statements

The interim Condensed Statements of Operations for the quarters ended January 31, 1991 and 1992 and the Condensed Balance Sheet as of July 31, 1991 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and article 10 of regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of results of operations, and financial position in conformity with generally accepted accounting principles.

However, in the opinion of management, these financial statements reflect all adjustments necessary for a fair presentation of the Company's financial position and results of operations for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's most recent annual report on form 10-K for the fiscal year ended July 31, 1991.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

CONDENSED BALANCE SHEET

ASSETS

	July 31, 1991
CURRENT:	
Cash and cash equivalents	$3,503,490
Investments	3,247,771
Prepaid expenses and other assets	99,507
TOTAL CURRENT ASSETS	6,850,768
EQUIPMENT AND LEASEHOLD IMPROVEMENTS	689,473
OTHER:	
Escrow deposit for legal settlement	50,000
Notes receivable - clinical sale	180,000
Deposits, net organization costs, and other assets	40,743
TOTAL OTHER ASSETS	270,743
	$7,810,984

The July 31, 1991 Condensed Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

CONDENSED BALANCE SHEET
(CONT'D)

LIABILITIES AND STOCKHOLDERS' EQUITY

	July 31, 1991
CURRENT LIABILITIES:	
Loans payable - clinical sale	$ 259,175
Accounts payable	361,722
Accrued expenses	75,577
Contract deposits	80,000
Post termination benefits	560,322
TOTAL CURRENT LIABILITIES	1,336,796
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, non-cumulative $.01 par-shares authorized, 1,000,000; outstanding, none	
Common stock, $.01 par-shares authorized, 20,000,000; issued and outstanding 4,398,295	43,983
Additional paid-in capital	14,712,382
Compensatory stock	(62,852)
Deficit	(8,219,325)
TOTAL STOCKHOLDERS' EQUITY	6,474,188
	$7,810,984

The July 31, 1991 Condensed Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

EMISPHERE TECHNOLOGIES, INC.
(formerly Clinical Technologies Associates, Inc.)

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months ended January 31,	
	1991	1992
REVENUES:		
Clinical testing services	$ 183,524	
Research and development contracts	261,500	
	445,024	
COSTS AND EXPENSES:		
Direct costs of clinical testing services	220,453	
General, administrative and selling expenses	454,153	5500,600
Research and development	325,207	850,392
Depreciation and amortization	33,663	131,583
TOTAL OPERATING EXPENSES	1,033,476	1,482,575
OPERATING (LOSS)	(588,452)	(1,482,575)
OTHER INCOME (EXPENSES)		
Interest expense	(12,386)	—
Interest income	12,254	111,839
Miscellaneous income	—	14,053
TOTAL OTHER INCOME (EXPENSES)	(132)	125,892
NET (LOSS)	($ 588,584)	($1,356,683)
NET LOSS PER SHARE	($0.19)	($0.27)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	3,156,042	5,043,128

The operating statements above do not include all disclosures required by generally accepted accounting principles.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company was originally organized to perform independent contract clinical research and development testing for the pharmaceutical industry. Beginning in fiscal 1989, the Company began to focus on both its clinical testing service and the development of one application of its proprietary oral delivery system. Fiscal 1990 was spent expanding the clinical research facilities and preparing for an increased emphasis on the Company's oral drug delivery system. During fiscal 1991 the Company decided to concentrate on the research and development activities surrounding its oral drug delivery system. As a result, a decision was made to divest the Company's clinical testing line of business. Effective July 31, 1991, the Company sold its clinical testing line of business to CTA Bio Services, Inc. ("CTABSI"). CTABSI is owned by certain former employees of the Company who purchased the clinical testing business for a series of notes totaling $251,000. With the divestiture of its clinical testing business in fiscal 1991, the Company's primary focus is on the development of its oral drug delivery system. Management does not believe that the Company's operations are significantly affected by inflation or seasonality. The Company has historically generated all of its research and development revenues under its contracts with its pharmaceutical clients, which generally provide for non-recurring payments upon the signing of the agreements and further lump-sum payments at certain stages of the research and development program. Research and development revenue is recognized ratably over the contract period; provided that where contracts contain provisions whereby the Company receives additional payments for services rendered if certain test objectives are achieved, these payments are recognized as income when received.

The Company was incorporated in Delaware on July 21, 1986 and is the successor, by merger effective July 31, 1986, to its parent, Clinical Technologies Associates, Inc., a New York corporation organized on April 25, 1985. The Company's principal executive office is located at 15 Skyline Drive, Hawthorne, New York 10532.

Following stockholder approval, which the Company received at its annual stockholders' meeting held January 21, 1992, the Company changed its name to Emisphere Technologies, Inc., from Clinical Technologies Associates, Inc.

RESULTS OF OPERATIONS

Three Months Ended January 31, 1992 and Three Months Ended January 31, 1991

For the three months ended January 31, 1992, the Company had no research and development revenues, as compared with $261,500 in research and development revenue for the three months ended January 31, 1991. During the three months ended January 31, 1992, the Company

continued the scientific work on its various research and development contracts, however, no scientific milestones were completed which would have produced revenues for the Company. Research and development revenues for the three months ended January 31, 1991, were derived from the Company's contract with The Upjohn Company. In December of 1991, the Company entered into a feasibility contract with the Schering-Plough Corporation, but work under this contract had not begun by January 31, 1992. The Company is currently in discussions regarding the licensing of its technology with a number of pharmaceutical and biotechnology companies, however, no assurance can be given that any agreements will be consummated or that any resulting agreement would yield revenues to the Company in amounts comparable to what has been earned in the past. Clinical testing revenue for the three months ended January 31, 1991 totaled approximately $183,500.

General administrative and selling expenses increased approximately $46,400 for the three month period ended January 31, 1992 compared to the three month period ended January 31, 1991. The increased costs reflect higher administrative and payroll expenses and certain one-time charges associated with the restructuring of the Company's Board of Directors, offset in part by a decrease in legal fees.

Research and development costs for the three month period ended January 31, 1992 increased approximately $525,200 compared to the three month period ended January 31, 1991. This change reflects an increase in research and development personnel, and additional expenditures for both laboratory supplies and services. In addition, the Company utilized the services of approximately 11 external research collaborations during the three months ended January 31, 1992, approximately four of these collaborations existed during the three month period ended January 31, 1991. The Company expects to increase its research and development staff during the remainder of the fiscal year, and, therefore, it is anticipated that research and development expenditures will continue to rise.

Depreciation and amortization increased approximately $97,900 during the three month period ended January 31, 1992 compared to the three month period ended January 31, 1991. This increase was the result of the write-off of approximately $96,000 of equipment and leasehold improvements the Company abandoned in connection with its recently completed move to new office and laboratory space.

The Company repaid all of its outstanding loans in August 1990 and accordingly no interest expense was incurred during the three month period ended January 31, 1992.

Interest income increased approximately $99,600 for the three month period ended January 31, 1992 compared to the three month period ended January 31, 1991, primarily as a result of the maintenance of higher cash balances. The Company, through the sale of common stock and funds received from the exercise of options and warrants, realized net proceeds of approximately $9.4 million during the year ended July 31, 1991, and also realized approximately $5.0 million in net proceeds from the conversion of options and warrants during the six months ended January 31, 1992.

The Company sold its clinical testing line of business in July 1991. Generally accepted

accounting principles dictated that proceeds from the sale were to be recognized only as collected. The $14,000 in miscellaneous income during the three months ended January 31, 1992 represented payments received in connection with the sale of the clinical testing line of business; there were no similar payments during the corresponding three months ended January 31, 1991.

Six Months Ended January 31, 1992 and Six Months Ended January 31, 1991

For the six months ended January 31, 1992, research and development revenues amounted to $75,000, compared to research and development revenues of $520,000 for the corresponding period ended January 31, 1991. Research and development revenues for the six months ended January 31, 1992 consisted of the recognition of a payment under the Company's agreement with Sandoz Pharmaceuticals. Research and development revenues for the period ended January 31, 1991 were derived from the Company's contract with The Upjohn Company. In December of 1991, the Company entered into a feasibility contract with The Schering-Plough Corporation. The Company is currently in discussions regarding the licensing of its technology with a number of pharmaceutical and biotechnology companies. However, no assurance can be given that any agreements will be consummated or that any resulting agreements would yield revenues to the Company in amounts comparable with what has been earned in the past. Clinical testing revenues for the six month period ended January 31, 1991 amounted to approximately $403,500.

General, administrative and selling expenses increased by approximately $103,000 for the six month period ended January 31, 1992 compared to the six month period ended January 31, 1991. The increased costs reflect higher administrative and payroll charges, an increase in the use of outside consultants and certain one-time charges associated with the restructuring of the Company's Board of Directors in November 1991, offset in part by a decrease in legal fees.

Research and development costs for the six months ended January 31, 1992 increased approximately $1,063,200 compared to the six month period ended January 31, 1991. This change reflects an increase in research and development personnel and additional expenditures for laboratory supplies and services. In addition, the Company utilized the services of approximately 11 external research collaborations during the six month period ended January 31, 1992, approximately four of these collaborations existed during the six month period ended January 31, 1991. The Company expects to increase its research and development staff during the remainder of the fiscal year and, therefore, it is anticipated that research and development expenditures will continue to rise.

During the six months ended January 31, 1992, depreciation and amortization expense increased approximately $109,600 as compared to the six month period ended January 31, 1991. The increase was a result of the purchase of laboratory equipment and a write-off of approximately $96,000 of equipment and leasehold improvements which the Company abandoned in connection with its move to new premises. At January 31, 1992, the Company had outstanding total commitments to renovate new office and laboratory space of approximately $328,000.

During the six months ended January 31, 1991, the Company accrued approximately $503,000,

the then net present value of what might have been payable under the terms of an employment contract with its previous president and chief executive officer who was terminated in October of 1990. There were no corresponding charges during the six months ended January 31, 1992.

Interest expense for the six months ended January 31, 1992 decreased $28,750 as compared to the six month period ended January 31, 1991. In August 1990 the Company repaid all of its outstanding loans. In addition, during the six month period ended January 31, 1991 the Company accrued interest charges of approximately $13,000 on the post termination benefits noted above. There were no corresponding charges during the current six month period ended January 31, 1992.

Interest income increased by approximately $198,700 during the six months ended January 31, 1992, as compared to the corresponding six months ended January 31, 1991, primarily as a result of the maintenance of higher cash balances. The Company, through the sale of common stock and funds received from the exercise of options and warrants, realized net proceeds of approximately $9.4 million during the year ended July 31, 1991, and also realized approximately $5.0 million in net proceeds from the conversion of options and warrants during the six months ended January 31, 1992.

The Company sold its clinical testing business in July 1991. In accordance with generally accepted accounting principles, proceeds from the sale are to be recognized as collected. The approximately $35,000 in miscellaneous income during the six months ended January 31, 1992, represented payments received in connection with this sale. There were no similar payments during the six months ended January 31, 1991.

The Six Months Ended January 31, 1992 Compared to the Year Ended July 31, 1991

During the six months ended January 31, 1992, the Company received approximately $5.0 million in net proceeds from the exercise of the various options and warrants. Based on this additional cash investment, the Company increased its cash position and reduced its current liabilities. As a result, the Company's working capital position improved approximately $1,678,300 from approximately $5,514,000 as of July 31, 1991, to approximately $7,192,300 as of January 31, 1992. During the six months ended January 31, 1992, the Company committed approximately $1.0 million to renovate and move into new office and laboratory space. As of January 31, 1992, approximately $328,000 of this commitment remained outstanding.

Liquidity and Capital Resources

The Company has historically met its working capital requirements with proceeds of private and public equity financings. As of January 31, 1992, the Company had working capital of approximately $7.2 million ($12 million as of February 14, 1992). From February 9, 1989 to January 31, 1992, the Company raised approximately $18 million from the sale of common stock, including through the exercise of options and warrants.

From February 1 to February 14, 1992, the Company received an aggregate of approximately $4.8 million, consisting of approximately $1.5 million in connection with the sale of additional shares of common stock to Tredegar Investments, approximately $2.4 million in connection with the exercise of redeemable warrants which expired on February 8, 1992, and $930,000 in connection with the exercise of warrants held by the underwriter and its affiliates for the Company's initial public offering.

The Company has recently committed approximately $1.0 million to renovate and move into new office and laboratory space. As of January 31, 1992, approximately $328,000 of this commitment remained outstanding. The Company intends to increase its research and development spending and this will give rise to the need for more scientific equipment and additional office space.

The Company expects that the net proceeds from its recent equity financings, together with existing funds, funds generated from operations, if any, funds received, if any, upon the exercise of outstanding options and warrants, will, under the Company's present operating assumptions, be adequate to meet its liquidity and capital requirements through 1993.

The Company does not maintain any credit lines with financial institutions.

Part II. Other Information

Item 1. Legal Proceedings

In May 1988, an action captioned Robert M. Rubin, Gerald Cohen and Arnold A. Lord v. Clinical Technologies, Inc., Solomon Steiner, Howard Pack, Arnold Friedhoff, Bruce Wilson and Luis Menocal was commenced in the Supreme Court of the State of New York, New York County. In their complaint, the plaintiffs assert claims against the Company for damages resulting from an alleged breach of an underwriting and financial consulting agreement. The individuals seek damages in an aggregate amount of $13,900,000 together with an indeterminate amount of legal fees. A motion for summary judgment was heard and argued on May 15, 1991, and on September 3, 1991, the court rendered a decision dismissing the complaint against all defendants. The plaintiffs served a notice of appeal from the judgment entered in the Supreme Court dismissing the case. By filing the notice of appeal, plaintiffs preserved their right to appeal and, in order to perfect such right, plaintiffs must file a brief within nine months.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's annual stockholders' meeting held January 21, 1992, stockholders approved the following:

(1) The Company's certificate of incorporation was amended and the Company changed its name to Emisphere Technologies, Inc., from Clinical Technologies Associates, Inc. The vote was 4,355,421 affirmative, 238,871 negative.

(2) The implementation of the Company's 1991 stock option plan was ratified. This plan permits the granting of options to purchase an aggregate of 400,000 shares of the Company's common stock to key employees of and consultants to the Company. The vote was 2,605,393 affirmative, 453,005 negative.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K:

The Company filed a report on form 8-K on November 21, 1991 with respect to a change in the Company's accountants. The Company has hired Coopers and Lybrand to replace BDO Seidman.

SIGNATURES

Pursuant to the requirement of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Emisphere Technologies, Inc.

Dated: March 2, 1992

Michael M. Goldberg, M.D.
Chairman, President and Chief
Executive Officer

Richard I. Steinhart
Vice President and Chief Financial
Officer (Principal Accounting Officer)